THOMAS L. GARTHWAITE, M.D.
Director and Chief Medical Officer

FRED LEAF
Chief Operating Officer

COUNTY OF LOS ANGELES
DEPARTMENT OF HEALTH SERVICES
313 N. Figueroa, Los Angeles, CA 90012
(213) 240-8101

February 11, 2005

TO: Each Supervisor

FROM: Thomas L. Garthwaite, MD
Director and Chief Medical Officer

SUBJECT: KING/DREW MEDICAL CENTER CMS CERTIFICATION

On February 2, the Centers for Medicare and Medicaid Services (CMS) notified KDMC Medical Center (KDMC) that it was publishing the final notice of termination from the Medicare program related to the hospital's failure to correct problems in the management of assaultive patients to the degree necessary to remove the immediate jeopardy to patient safety.

KDMC has submitted a plan of correction to CMS and requested that a resurvey be conducted. The Department expects CMS to return to the facility within the next few days to conduct this review. If KDMC is able to show the problems have been corrected and the improvements are sustainable, CMS will lift the immediate jeopardy and the hospital will retain Medicare certification and the attendant funding. While the Department expects that, based on the actions taken, the facility will clear the immediate jeopardy upon resurvey, if the problems are not remediated to CMS' satisfaction, the hospital's participation in the Medicare program – and all attendant Medicare and Medicaid funding – will be terminated effective at midnight on February 18, 2005.

Potential Fiscal Impact

Presently, KDMC's annual budget is $358 million. Of this, $106.6 million comes from County operating subsidy, based on the Fiscal Year 2004-05 budget, which includes funding through sales tax, Vehicle License Fees, tobacco settlement, and Measure B

funds. Federal and state funding associated with the Medicare and Medicaid (Medi-Cal) programs represents $201.7 million of KDMC's budget. This includes Medi-Cal inpatient, disproportionate share hospital (SB 855), Medi-Cal supplemental payments (SB 1255), Community Health Plan managed care revenue, and Cost-Based Reimbursement Clinic dollars. The remaining $50 million represents the hospital's operating deficit.

Attached is a summary of the revenue impact, should the hospital lose CMS certification. CMS has indicated that even with loss of Medicare certification, it may be possible for KDMC to receive reimbursement through the Medicare and Medicaid programs for emergency services. The Department has not yet received a clear definition from CMS as to what breadth of services this would cover and thus is not able to determine how much revenue might be associated with this.

Under the most optimistic of calculations, between $50 and $70 million of the federal and state funds may be able to be salvaged. However, this calculation is extremely preliminary and was done without the benefit of detailed discussion with the State as to the feasibility of retaining these dollars or with CMS as to how it would define emergency care and patient stabilization. However, even with this amount of revenue being retained, the financial impact of losing CMS certification will be devastating to the hospital's operations.

On January 31, I provided your Board with a summary of the effect the loss of JCAHO accreditation has on the hospital's operations and funding. Withdrawal of CMS certification compounds this impact. The hospital would still be unable to receive reimbursement for inpatient services provided to patients enrolled in managed care health plans and there could be no reestablishment of the trauma service.

Loss of CMS certification could cause the Accreditation Council for Graduate Medical Education (AGCME) to accelerate any actions it might have taken in response to the JCAHO accreditation loss. If this were to happen and the hospital could not serve as a training site, the County would be responsible for identifying training placements for the 350 residents presently employed by the Department who are enrolled in Drew University sponsored training programs at KDMC. Further, the loss of residents to provide care could dramatically impact the facility's ability to deliver services.

Additionally, the loss of CMS certification prohibits KDMC from being designated as a Lanterman-Petris-Short Act (5150) hospital. This would mean that law enforcement could no longer deliver patients who were considered to be a threat to themselves or others to the KDMC psychiatric emergency room for treatment. This would have a tremendous impact on not only the patients, but on the volume of patients taken to the remaining three County psychiatric emergency rooms, which already experience significant overcrowding.

Planning Activities

The Department has been meeting internally with County Counsel and, with assistance from the Healthcare Association of Southern California, has convened several meetings with the provider and advocacy community to discuss planning for the possibility that CMS certification is withdrawn. The range of alternatives being evaluated includes:

- Keeping KDMC open and operating at current, or close to current, levels (depending on Navigant service configuration recommendations). Under this model, the County would absorb the $201.7 million in lost Medicare and Medicaid/Medi-Cal reimbursement for the period of time during which the hospital seeks CMS recertification. Navigant estimates that the remediation and reapplication processes will take between nine and 12 months.

- KDMC remaining open as an acute inpatient medical facility, but with a significantly reduced scope of service. The County would absorb the revenue loss associated with the operation of the smaller hospital while the hospital prepares for CMS recertification. It is anticipated that the revenue impact for operating a smaller hospital would be less than maintaining the hospital at its current level, but DHS Finance is still conducting this analysis. Services to be considered for termination would include pediatrics, neonatal care, obstetrics, and emergency services. Under this model, KDMC would function as a receiving hospital for patients transferred from other hospitals impacted by the closure of its emergency room. Patients requiring eliminated services would be treated at other DHS hospitals or in private facilities.

- Maintaining KDMC's inpatient hospital license as is and removing the outpatient primary and specialty care services from the hospital license in order to preserve federal and state funding for outpatient services. The County would absorb the revenue loss associated with maintaining and operating an acute inpatient hospital during the recertification process. Whether to maintain emergency services under this model would have to be evaluated. One risk associated with this model is that free-standing outpatient services are likely to be reimbursed at a significantly reduced rate and ultimately returning these services to an inpatient hospital license would require substantial physical plant investments in order to meet state building code standards required for licensure.

- Terminating the hospital's inpatient license and reconfiguring it to operate as an outpatient facility only. Outpatient services to be retained could include primary and specialty services, ambulatory surgery, and ancillary services. The County funding associated with operating inpatient services would be reallocated among other DHS

and private hospitals to offset the cost of providing emergency and inpatient services to patients displaced by the closure of inpatient services.

- Closing KDMC entirely and reallocating $106 million in County cost and any other available revenues to purchase services in other DHS and private facilities.

With the exception of total closure of the facility, all of the options presented to maintain services at KDMC result in a substantial loss of revenue and continued significant cost to the County. The Department continues to assess each of these options and will report back to your Board as it makes further determinations as to the feasibility and impact of each alternative.

Please let me know if you have any further questions.

TLG:ak

Attachment

c: Chief Administrative Officer
County Counsel
Executive Officer, Board of Supervisors
Navigant Consulting, Inc.

LOS ANGELES COUNTY/DEPARTMENT OF HEALTH SERVICES
SUMMARY OF KING/DREW BUDGETED MEDI-CAL AND MEDICARE REVENUES
FY 04-05 BUDGET

SOURCE	$ IN MILLIONS
CMAC/SPCP Medi-Cal Contract	
Inpatient Base Rate	$ 43.8
SB 1255	70.8
SB 1732	3.1
TOTAL	$117.7
SB 855/DSH(Medi-Cal)	$ 27.8
Outpatient (Medi-Cal)	
SMA	$ 8.0
AB 915	5.0
CBRC (expires June 30, 2005*)	5.0
TOTAL	$ 18.0
ER	
SMA (Medi-Cal)	$ .8
AB 915 (Medi-Cal)	3.7
Medicare	1.0
TOTAL	$ 5.5
CHP	
Base (Medi-Cal)	$ 6.6
CBRC (Medi-Cal-expires June 30, 2005*)	6.8
TOTAL	$ 13.4
Other Managed Care**	$ 4.0
Medicare	
Inpatient	$ 14.4
Outpatient	.9
TOTAL	$ 15.3
TOTAL MEDI-CAL AND MEDICARE	$201.7

*County request for extension beyond June 30, 2005 pending State response.
**Estimated portion of insurance revenues.